PRP Section 8100

Instructions to Providers Having a Quality Control Materials Review

Introduction

.01 A quality control materials (QCM) review is a type of peer review that is a study and appraisal by a QCM reviewer of an organization's (hereinafter referred to as provider) system of quality control to develop and maintain QCM. The system represents the provider's policies and procedures that the provider has designed and is expected to follow when developing the materials. The QCM reviewer's objective is to determine whether the system is designed and whether the provider is complying with its system appropriately so that users of the materials, primarily CPA firms and their employees, have reasonable assurance to rely on the materials. The materials can be part or all of a firm's documentation of its system, in the form of, for example, manuals, programs, and practice aids (forms and questionnaires). Users rely on the materials to assist them in performing and reporting in conformity with professional standards in conducting their accounting and auditing practices. In addition, one of the reasons that providers elect to have an independent review of their system of quality control for the development and maintenance of the QCM they have developed, and of the materials themselves, is to provide more cost-effective peer reviews for firms that have acquired or use such materials.

.02 The purpose of these instructions is to provide overall guidance to providers having a QCM review under the AICPA Peer Review Program (the program). Providers should be aware of their review responsibilities and requirements as discussed in PRP section 1000, *Standards for Performing and Reporting on Peer Reviews*, with an emphasis on paragraphs .154–.205 and paragraphs 17–22 of appendix A (as well as these instructions). In addition, all individuals at the provider involved in the review should read and become familiar with the standards, PRP section 2000, *Peer Review Standards Interpretations*; PRP section 3000, *Other Guidance*; and materials relative to the aspect of the review that most directly affects their role at the provider.

.03 An independent review of the system for the development and maintenance of QCM and the resultant materials (the QCM review) is required for certain providers (see PRP section 1000). In addition, a provider may have a QCM review voluntarily so that peer reviewers of user firms can place reliance on the QCM to reduce the scope of the review of the firm's third-party materials.

.04 A QCM Review is intended to provide the QCM reviewer with a reasonable basis for expressing an opinion on whether, during the year under review

a. the provider's system for the development and maintenance of the materials was suitably designed and was being complied with during the period under review to provide user firms with reasonable assurance that the materials are reliable aids to assist them in conforming with those professional standards the materials purport to encompass, and

b. the resultant materials are reliable aids.

.05 A QCM review encompasses judgmental review of all of the materials opined on in the report. The extent of review of each module or guide is based on the QCM reviewer's assessment of risk, taking into consideration factors such as industries with higher inherent risk, new pronouncements and standards, and so on.

.06 QCM reviews are administered by the AICPA Peer Review Board's National Peer Review Committee (NPRC). In addition, the QCM Task Force is involved in the administration and acceptance process. The task force's involvement includes performing oversight reviews prior to acceptance, developing practice aids, and recommending enhancements to the guidance related to QCM reviews.

Prior to the Review

.07 Providers required to have a QCM review should have the review once every 3 years and should arrange to have the review administered by the NPRC. Providers should submit the Information Required to Schedule QCM Reviews form no less than 60 days prior to the commencement of the review. The QCM review should not commence until the provider and reviewer are informed that the selected QCM review team is approved to perform the review. It is the responsibility of the provider to verify that the QCM review team is qualified to perform the review, including ensuring that the QCM review team doesn't have the following independence impairments:

- The reviewing firm uses materials developed by the provider as an integral part of its system of quality control.
- A QCM review team member was involved in the development of the provider's materials.
- The provider is an association to which the reviewing firm belongs.
- Any other conflicts of interest.

.08 The provider and the QCM reviewer should agree on an appropriate date for the review to commence and the anticipated exit conference date. Ordinarily, the review should be performed within six months following the end of the year to be reviewed. The review should be planned to provide the review team with sufficient time to perform the review and to give the provider sufficient time prior to the exit conference to determine appropriate responses to matters, findings, deficiencies, and significant deficiencies identified during the review. In most circumstances, the applicable period should not change from one triennial review period to the next. In the event of substantial change in the system for the development and maintenance of the materials or in the resultant materials, the provider should consult with the NPRC to determine whether an accelerated review is warranted.

.09 The terms and conditions of the QCM review may be summarized in an engagement letter between the provider and the reviewing firm or association, if an association formed the QCM review team.

.10 A contact person should be designated as liaison to provide assistance to the QCM review team and should be available throughout the review.

.11 Provide the following to the QCM reviewer as soon as possible:

a. The quality control documentation, including the procedures for developing the materials (including distribution), ensuring the materials are current and relevant, determining the on-going qualifications of all parties involved in the development and maintenance of the materials, soliciting and evaluating feedback from users of the materials, policies regarding the issuance of updates to the materials, the method of updating, procedures undertaken to provide such updates (if such policies exists), and the procedures for monitoring compliance with the provider's quality control policies and procedures

b. Documentation of the monitoring procedures performed by the provider during the review year

c. A list of the materials on which an opinion is to be expressed

d. A list of the personnel involved in the development and maintenance of the materials

e. A list of the external or guest authors and technical reviewers involved in the development and maintenance of the materials

f. Other information requested by the QCM reviewer

.12 Have the following available for the QCM review team when they perform the site visit:

a. Personnel information to the extent requested by the QCM reviewer

b. Documentation to support the qualifications and expertise of personnel involved in the development or maintenance of the materials, such as current résumés including titles or positions, relevant training, experience, industry expertise, CPE records, and so on

c. Documentation to support the qualifications and expertise of external or guest authors and technical reviewers

d. Any communications relating to allegations, investigations, or litigation involving the provider, its personnel, or non-personnel contributors or reviewers (such as guest authors or technical reviewers) since the provider's last review year-end

.13 The provider should provide a comfortable, adequate working area for the QCM review team and, if necessary, assist in coordinating accommodations for the QCM review team.

.14 The review of the provider's quality control policies and procedures includes interviews of the provider's personnel. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated and are being complied with. The QCM review team may perform one-on-one interviews or focus groups. The QCM reviewer will arrange for the scheduling of interviews with selected members of the provider's personnel. The provider should see that this schedule is communicated to the appropriate individuals and that they understand the importance and purpose of the interviews. The QCM review team will endeavor to have these discussions and interviews without disrupting the provider's operations.

During the Review

.15 The designated liaison should meet with the QCM review team at the beginning of the review to orient them to the policies and procedures, introduce them to appropriate personnel, and provide them with a tour of the office.

.16 During the course of the QCM review, the QCM review team may find it necessary to discuss matters with the appropriate personnel. Provider personnel should be asked to be available to the QCM review team as necessary during the course of the QCM review.

.17 In addition, provider personnel may need to coordinate with AICPA staff to plan oversight procedures.

Completion of the Review and Firm Responses

.18 Prior to issuing his or her report or finalizing matter for further consideration (MFC) and finding for further consideration (FFC) form(s), if applicable, the team captain should communicate his or her conclusions to senior members of the firm at a closing meeting. It is expected that the provider's senior management, the individuals responsible for maintaining the provider's system of quality control and the review team physically attend the closing meeting. The closing meeting may also be attended by representatives of the National PRC, the QCM Task Force, the board, AICPA staff, or other board-authorized organizations with oversight responsibilities. The team captain should discuss the following during the closing meeting (see interpretations):

a. Preliminary peer review results, including any matters, findings, deficiencies or significant deficiencies, and the type of report expected to be issued if determinable at this point.

b. The provider's requirement to respond to the MFC form(s), FFC form(s), or the deficiency(ies) or significant deficiency(ies) included in the peer review report.

c. Other suggestions and observations for the provider to consider. For example, implications of upcoming changes in professional standards, operational or efficiency suggestions, and minor areas for improvement considerations.

.19 An exit conference will be held after the provider has responded to the MFC forms, FFC forms, and deficiencies or significant deficiencies in the report and the team captain has assessed whether the responses are appropriate and has considered any additional impact to the QCM results, and may be held via teleconference. Accordingly, except in rare circumstances that should be explained to the provider, the exit conference should be postponed if there is uncertainty about the report to be issued or the deficiencies or significant deficiencies to be included in the report. The purpose of a separate closing meeting and exit conference is to provide the provider sufficient time to determine appropriate responses to the matters, findings, deficiencies, and significant deficiencies identified and to provide the team captain with sufficient time to assess the provider's responses prior to the report date (exit conference date). If these steps have been taken prior to the closing meeting or are not necessary, the closing meeting and exit conference may be combined. If combined, the meeting should be held in person. In either circumstance, the exit conference should ordinarily be held prior to but no later than the review due date (see interpretations). The team captain should discuss the following during the exit conference:

a. Peer review results, including any changes to the information communicated at the closing meeting after consideration of the provider's responses to MFC forms, FFC forms, and deficiencies and significant deficiencies in the report.

b. Potential implications of the RAB acceptance process such as corrective actions (for deficiencies and significant deficiencies) and implementation plans (for findings) that may be imposed by the RAB, if applicable. The review team should also discuss with the provider the implications of these steps on the acceptance and completion of the peer review and the provider's enrollment in the program.

c. Peer review noncooperation implications of consecutive non-pass report ratings, if applicable.

.20 The provider will provide the QCM reviewer with written representations, at a minimum, relating to the following matters:

a. Situations where management is aware that its materials were used and substantially relied upon in an engagement that was later found to not comply with the applicable standards or regulations (auditing, review, reporting, and so on) in all material respects, when the materials were found to be a systemic cause of the engagement deficiencies.

b. Access to all sources of feedback, including user feedback.

c. Situations or a summary of situations where management is aware that its personnel or non-personnel contributors or reviewers (for example, guest authors or reviewers) have not complied with the rules and requirements of state board(s) of accountancy or other regulatory bodies, as applicable (including applicable licensing requirements in each state in which it practices if the provider is a firm or has employed CPA personnel), and if applicable, how the provider has or is addressing and rectifying situations of noncompliance.

d. Restrictions or limitations of CPA personnel or non-personnel contributors that impacts their ability to practice public accounting within three years preceding the current peer review year-end that were imposed by or agreed to with other regulatory, monitoring, or enforcement bodies (for example, the PCAOB, SEC, U.S. Government Accountability Office, Department of Labor, any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency).

e. Access to records and systems of control, including but not limited to, employee files of leased and per diem employees, records related to non-personnel contributors or reviewers, and so on.

f. Materials provided for review that are complete and represent the final version of the materials.

The written representations should be addressed to the QCM reviewer performing the peer review. Because the QCM reviewer is concerned with events occurring during the review period and through the date of his or her QCM review report that may require an adjustment to the QCM review report or other review documents, the representations should be dated the same date as the QCM review report. See appendix A for an illustration of provider representations.

.21 The provider should respond to all matters communicated on an MFC form, findings communicated on an FFC form and deficiencies or significant deficiencies communicated in the QCM report. The provider's draft response to deficiencies or significant deficiencies should be communicated in a letter of response

addressed to the National PRC. The provider's responses should be provided to the QCM reviewer as soon as practicable to allow the QCM reviewer sufficient time to assess the firm's response prior to the exit conference.

.22 If the provider receives an FFC form or a report with a review rating of pass with deficiencies or fail, it is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies and significant deficiencies and to appropriately respond. The provider should address the following in its response with respect to each finding, deficiency and significant deficiency:

a. Materials that have an error or omission, including the following:

i. The provider's actions taken or planned to remediate the error or omission identified on the FFC form or in the report, including the provider's plan for notifying known users of the materials

ii. The provider's actions taken or planned to remediate findings and deficiencies in the provider's system of quality control

b. Systemic issues unrelated to materials that have an error or omission:

i. The provider's actions taken or planned to remediate findings and deficiencies in the provider's system of quality control

c. Timing of the remediation

.23 The QCM reviewer should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The appropriateness of the provider's response should be discussed during the exit conference. The provider's letter of response should be finalized and dated as of the exit conference date and provided to the QCM reviewer. The QCM reviewer should include the provider's letter of response with his or her report and working papers submitted to the National PRC.

.24 If the provider receives a report with a review rating of "pass" or "pass (with a scope limitation)," a letter of response is not applicable, and the provider does not submit a copy of the report to the NPRC.

.25 Reviewers and providers should understand that professional judgment often becomes a part of the process and each party has the right to challenge the other on such matters. If, after discussion with the QCM reviewer, the provider disagrees with one or more of the findings, deficiencies, or significant deficiencies, the provider should contact NPRC staff for assistance in the matter. For more information on disagreements, please review paragraph .98 of section 1000.

.26 It is the provider's responsibility to identify the appropriate remediation of any findings, deficiencies, and significant deficiencies and to appropriately respond. However, the AICPA Peer Review Board encourages the provider to work with the QCM reviewer to develop remedial actions that both parties believe will be effective in correcting the matters, findings, and deficiencies noted during the QCM review. Experience shows that improvement is more likely to occur when the provider's responses describe specific actions to be taken. Therefore, a response limited to the provider's comment that it will emphasize or reemphasize a policy or procedure should be combined with more specific actions.

.27 Once the QCM reviewer has finalized the QCM review workpapers and the report, the documents are due to the NPRC within 30 days of the exit conference. All QCM reviews undergo a technical review process. In addition, all QCM reviews are subjected to oversight by the QCM Task Force. The level of oversight

is dependent on various factors. At a minimum, oversight encompasses NPRC staff performing on-site oversight during the fieldwork procedures, reviewing the QCM reviewer's working papers, and reviewing a sample of the QCM materials opined upon in the report. The task force can judgmentally elect to perform additional oversight procedures as deemed necessary.

.28 Once technical review and oversight procedures are completed, QCM reviews are presented to the full NPRC with the task force's recommendation for consideration and acceptance. QCM reviews are considered by the full NPRC during its regularly scheduled meetings or conference calls.

.29 Once the QCM review report and related documents are accepted by the NPRC, an acceptance letter is sent to the provider. The review results are posted to the AICPA website to make QCM review results easily accessible to firms that use the materials, their peer reviewers, and other interested parties.

.30 As part of the acceptance process, the provider may be requested to perform remedial, corrective actions related to the deficiencies or significant deficiencies noted in the QCM review report, in addition to those described by the provider in its letter of response. If a provider does not agree to perform the required actions, this will delay acceptance of the review. If a provider does not perform the required actions, this will delay completion of the peer review.

.31 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high quality performance throughout the industry and CPA profession. Thus it depends on mutual trust and cooperation. The provider is expected to take appropriate actions in response to findings, deficiencies, and significant deficiencies identified with its system of quality control or its compliance with the system, or both. Based on the information on the FFC form(s), the provider may be required to have an implementation plan in addition to or as an affirmation of the plan described by the provider in its response to the findings on the FFC form(s). If a provider does not perform the required action in the implementation plan, it could jeopardize the provider's ability to schedule future QCM reviews. For those providers that are required to obtain a QCM review, disciplinary actions will be taken for a failure to cooperate, failure to correct inadequacies, or when a provider is found to be so seriously deficient in its performance that education and remedial, corrective actions are not adequate.

Fees and Expenses

.32 The NPRC is authorized to establish fees to fund the administration of QCM reviews. Refer to the AICPA website for the most current fee schedule.

Appendix A

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Illustration of a Provider Representation Letter that has No Significant Matters to Report to the QCM Reviewer

October 31, 20XX [fn 1]

To the QCM reviewer:

We are providing this letter in connection with the quality control materials review of [*name of provider*] and the [*insert the titles of the materials*] as of the date of this letter and for the year ended June 30, 20XX.

We confirm, to the best of our knowledge and belief, that there are no known circumstances when our materials were used and substantially relied upon in an engagement that was later found to not comply with the applicable standards or regulations [fn 2] in all material respects when the above named materials were found to be a systemic cause resulting in the engagement deficiencies. We also confirm that we have considered all sources of feedback, including feedback from users. We have made you aware of any situations when management is aware that its personnel or non-personnel contributors or reviewers [fn 3] have not complied with the rules and requirements of state board(s) of accountancy or other regulatory bodies (as applicable) [fn 4] and how the provider has or is addressing and rectifying situations of noncompliance. We have also determined that none of our CPA personnel or non-personnel contributors or reviewers are subject to any restrictions or limitations that impacts their ability to practice public accounting within three years preceding the current peer review year end that were imposed by or agreed to with other regulatory, monitoring, or enforcement bodies. [fn 5] Further, we have provided the QCM reviewer with any other information requested and access to records and systems of control, including but not limited to, employee files of leased and per diem employees, files related to non-personnel contributors or reviewers, user feedback, and so on.

Sincerely,

[fn 1] Should be dated the same date as the quality control materials review report.

[fn 2] For example, auditing, review, reporting standards, and so on. Consideration should also be given to regulatory guidance, such as the Employee Retirement Income Security Act, the Office of Management and Budget, the Department of Labor (DOL), and so on.

[fn 3] Including guest or external authors or reviewers.

[fn 4] Including applicable licensing requirements in each state in which it practices if the provider is a firm or has employed CPA personnel.

[fn 5] For example, the PCAOB, SEC, U.S. Government Accountability Office, DOL, any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency.

[*Name of Signatory*] [fn 6]

[*Name of Provider*]

[fn 6] Letter should be signed by the appropriate party at the provider that has primary responsibility for the system to develop and maintain the materials.